

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 EA-07 ISO-00 AID-05 CIAE-00 COME-00
FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01
/087 W

-----111222Z 123553 /14

R 110852Z MAR 77
FM AMEMBASSY MANILA
TO SECSTATE WASHDC 7026
INFO AMEMBASSY BANGKOK
AMEMBASSY JAKARTA
AMEMBASSY KUALA LUMPUR
AMEMBASSY LONDON
AMEMBASSY OTTAWA
AMEMBASSY PARIS
AMEMBASSY SINGAPORE
AMEMBASSY TAIPEI
AMCONGEN HONGKONG

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HONG KONG FOR REGIONAL TREASURY REPRESENTATIVE

E O 11652: NA
TAGS: EFIN, RP
SUBJ: ONE STEP CLOSER TO OFFSHORE BANKING

REFS: A. 76 MANILA A-169, B. 76 MANILA 15347

1. SUMMARY. FOLLOWING ANNOUNCEMENT OF OFFSHORE BANKING LAST SEPTEMBER, THE CENTRAL BANK (CB) ISSUED IMPLEMENTING REGULATIONS IN LATE 1976. THE CB HAS RECEIVED TEN APPLICATIONS TO ESTABLISH OFFSHORE BANKING UNITS (OBUS), AND IT IS EXPECTED THAT THE MONETARY BOARD WILL APPROVE THE APPLICATIONS THIS MONTH. FOUR US, ONE CANADIAN,
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TWO UK, TWO FRENCH, AND ONE EUROPEAN CONSORTIUM BANK WILL THEN HAVE 180 DAYS IN WHICH TO ESTABLISH OBUS. THE TWO U.S. BRANCHES NOW IN THE RP, CITIBANK AND BANK OF AMERICA, HAVE NOT APPLIED FOR OBUS, AND MAY OPT FOR THE EXPANDED "FOREIGN CURRENCY DEPOSIT UNIT," AN EXPANSION OF THE PRESENT FOREIGN DEPOSIT SYSTEM. GOP MONETARY AUTHORITIES ACKNOWLEDGE THEY HAVE MUCH TO LEARN, AND

THE INITIAL PERIOD MAY BE DIFFICULT. END SUMMARY.

2. THE CENTRAL BANK HAS ESTABLISHED IMPLEMENTING REGULATIONS FOR THE OPERATION OF OFFSHORE BANKING IN MANILA. TWO COMPANION CIRCULARS ISSUED IN LATE 1976 PROVIDE FOR ESTABLISHMENT OF OFFSHORE BANKING UNITS (OBUS) BY BANKS WHICH DO NOT PRESENTLY CONDUCT BANKING OPERATIONS IN THE PHILIPPINES, AND EXPANDED FOREIGN CURRENCY DEPOSIT UNITS (FCDUS) BY FOREIGN AND DOMESTIC BANKS ALREADY ESTABLISHED HERE. COPIES OF THE CIRCULARS WILL BE FORWARDED BY AIRGRAM.

3. THE CIRCULARS SPECIFY TRANSACTIONS WHICH THE OBUS MAY CONDUCT WITH NON-RESIDENTS OR OTHER OBUS, WITH FCDUS, AND WITH PHILIPPINE RESIDENTS OTHER THAN OBUS OR FCDUS. OF PARTICULAR INTEREST ARE THE TAX RATES, SPELLED OUT IN REGULATIONS SUBSEQUENTLY ISSUED BY THE BUREAU OF INTERNAL REVENUE. FOR OFFSHORE OPERATIONS, THE RATE WILL BE FIVE PERCENT OF NET INCOME. WITH RESPECT TO OFFSHORE TO ONSHORE OPERATIONS (I.E., LOANS TO PHILIPPINE BORROWERS) THE RATE WILL BE 10 PERCENT OF GROSS INCOME. LOCAL OBSERVERS CLAIM THAT THESE RATES RESULT IN A SLIGHTLY BETTER TAX TREATMENT THAN IN SINGAPORE, AND IN SPITE OF PROTESTATIONS BY GOP SPOKESMEN THAT MANILA IS NOT IN COMPETITION WITH OTHER OFFSHORE BANKING CENTERS, SINGAPORE RATES CERTAINLY FIGURED HEAVILY IN GOP CALCULATIONS.

4. CENTRAL BANK GOVERNOR LICAROS HAS SAID THAT 22
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BANKS HAVE "EXPRESSED INTEREST" IN OPENING OBUS. HOWEVER, ONLY A PORTION OF THOSE BANKS MET THE FORMAL APPLICATION DEADLINE OF FEBRUARY 15. A MEMBER OF THE CB'S OFFSHORE BANKING COMMITTEE HAS TOLD EMBOFF THAT TEN APPLICATIONS WILL SOON BE RECOMMENDED FOR APPROVAL TO THE MONETARY BOARD, AND THAT NO APPLICATIONS WERE RECOMMENDED FOR DISAPPROVAL. FOLLOWING ARE THE RECOMMENDED APPLICANTS:

MANUFACTURERS HANOVER TRUST
UNITED CALIFORNIA
AMERICAN EXPRESS
CHASE MANHATTAN
BANK OF NOVA SCOTIA
BARCLAY'S GROUP OF BANKS
ZCOYD'S BANK
BANQUE NATIONALE DE PARIS
BANQUE DE L'INDOCHINE ET DE SUEZ
EUROPEAN-ASIAN (CONSORTIUM OF SEVEN EUROPEAN BANKS)

5. THE BANK OF TOKYO PRESENTS A SPECIAL PROBLEM. THE
PHILIPPINE NATIONAL BANK PLANS TO ESTABLISH A BRANCH IN

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TOKYO, AND THE JAPANESE ARE INSISTING ON RECIPROCITY,
BASED ON THE RP/JAPAN ECONOMIC TREATY. THE BANK OF
TOKYO HAS THEREFORE NOT APPLIED FOR AN OBU, SINCE IT
WOULD NOT WISH AN OBUS TO BE CONSTRUED AS A SUBSTITUTE
FOR A FULL SERVICE BRANCH. THE CB IS RECOMMENDING THAT
THE BANK OF TOKYO BE ALLOWED TO ESTABLISH AN OBU WITH-
OUT PREJUDICE TO FUTURE ESTABLISHMENT OF A BRANCH. A
CB SOURCE HAS ADVISED THAT THE GOP WILL BE INCLINED
TO FAVOR APPROVAL OF A BRANCH FOR THE BANK OF TOKYO.
(NO FOREIGN BRANCH HAS BEEN APPROVED FOR RP SINCE BANK
OF AMERICAN IN 1947.) THUS THE WAY APPEARS CLEAR FOR
BANK OF TOKYO TO ESTABLISH AN OBU NOW IF IT CHOOSES TO
APPLY.

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6. BASED ON OUR CONVERSATIONS WITH LOCAL BANKERS, MOTIVATIONS FOR GETTING INTO AN OBU OPERATION SEEM TO VARY. FEW APPEAR TO BE PRIMARILY INTERESTED IN OFFSHORE-TO-OFFSHORE TRANSACTIONS, SINCE COVERAGE OF THIS SORT OF BUSINESS IS FAIRLY COMPLETE IN THIS PART OF THE WORLD (SINGAPORE, HONG KONG, BAHRAIN). MOST HAVE IN VIEW THE POTENTIAL OF THE PHILIPPINE DOMESTIC MARKET, AND THIS IS PARTICULARLY TRUE FOR THE EUROPEANS, WHO ARE NEW TO THE MARKET. THOSE ALREADY HEAVILY EXPOSED HERE (I.E., THE U.S. BANKS) ARE LESS EAGER FOR MORE DOMESTIC BUSINESS. THEIR APPLICATIONS HAVE BEEN CHARACTERIZED AS "DEFENSIVE," THAT IS, INSURANCE THAT THEY ARE IN FAVORABLE POSITION IF AND WHEN THE PHILIPPINE ECONOMY JUSTIFIES A MORE AGGRESSIVE POSTURE. ALL APPLICANTS APPEAR TO BE LOOKING AHEAD TO THE TIME WHEN RULES MIGHT BE LIBERALIZED TO PERMIT THEM TO ENGAGE IN SOME OF THE MORE LUCRATIVE AREAS, NOW CLOSED TO THEM, SUCH AS LETTERS OF CREDIT AND DOLLAR/PESO SWAPS.

7. THE TWO U.S. BRANCHES NOW IN MANILA, CITIBANK AND BANK OF AMERICA, HAVE SHOWN NO INTEREST IN ESTABLISHING AN OBU, SINCE IT WOULD SEEM TO OFFER NO ADVANTAGES OVER THEIR PRESENT SITUATION. THERE HAS BEEN SPECULATION THAT THEY WILL APPLY FOR EXPANDED FCDUS, WHICH CAN ENGAGE IN SWAPS AND L/C BUSINESS, BUT NO DEFINITE DECISION HAS EMERGED. SOME OF THE NINE OR SO QUALIFIED DOMESTIC BANKS (THOSE WITH CAPITALIZATION OF OVER 150 MILLION PESOS - \$US 20 MILLION) ALSO APPEAR TO BE INTERESTED IN THE EXPANDED FCDU, BUT THE FCDU PLAN CLEARLY HAS LESS PUSH FROM THE GOP, AND DEVELOPMENTS WILL BE RELATIVELY SLOW.

8. THE RECOMMENDATIONS OF THE OFFSHORE BANKING COMMITTEE WILL PROBABLY BE CONSIDERED AND APPROVED BY THE MONETARY BOARD SOMETIME THIS MONTH. THE BANKS

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WILL THEN HAVE 180 DAYS IN WHICH TO ESTABLISH THEIR OBUS. SOME ARE PLANNING ONLY SMALLISH OFFICES, WITH TWO OR THREE EXPATRIATES, WHILE OTHERS, ESPECIALLY THE EUROPEANS, ARE THINKING IN LARGER TERMS.

9. COMMENT. FOR BETTER OR FOR WORSE, THE PHILIPPINES IS POISED TO STEP OFF INTO THE DEEP WATER OF INTERNATIONAL BANKING. PRESSURE FROM PRESIDENT MARCOS

FORCED THE ISSUE, AND THE CENTRAL BANKERS CONTINUE TO HARBOR SOME MISGIVINGS. CB GOVERNOR LICAROS, FOR EXAMPLE, REPORTEDLY FEARS THAT OFFSHORE BANKING WILL MEAN AN END TO DEPOSITS IN THE PRESENT FOREIGN CURRENCY DEPOSIT SYSTEM. THE FILIPINOS FREELY ADMIT THAT THEY HAVE A LOT TO LEARN, AND THAT THE INITIAL PERIOD WILL PRODUCE STRAINS AND FRUSTRATIONS. MONETARY AUTHORITIES ALSO FACE THE PORSPECT OF CONTINUING PRESSURE TO INSURE THE PROFITABILITY OF THE OBUS AND SO LIBERALIZE THE RULES GOVERNING THEIR OPERATIONS. SOME EVEN LOOK AHEAD TO BRANCH-LIKE OPERATIONS. PRESSURE FROM THE OTHER DIRECTION WILL BE MOUNTED BY THE DOMESTIC BANKS, WHICH HAVE ONLY GRUDGINGLY ACCEPTED OFFSHORE BANKING, AND WHICH CAN BE EXPECTED TO STRONGLY DECRY ANY HINT OF FURTHER EROSION IN THEIR POSITION.

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